



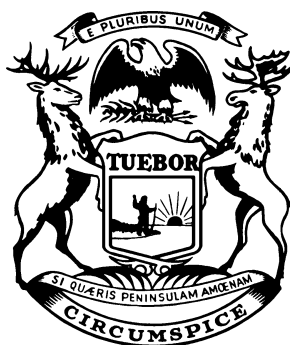
Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2001

A Pension Trust Fund
of the State of Michigan
John Engler, Governor

**Michigan
State
Police
Retirement
System**

Michigan State Police Retirement System
a Pension Trust Fund of the State of Michigan

**Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2001**



MSPRS

**Prepared by:
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111**

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The cost of printing this report was \$1,349.48 (3.73 each), which was paid for by the System at no cost to taxpayers.

INTRODUCTORY SECTION

Certificate of Achievement
Letter of Transmittal
Board Members
Advisors & Consultants
Organization Chart

INTRODUCTORY SECTION

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan State Police Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Thomas A. Duwe
President

Jeffrey L. Esser
Executive Director

INTRODUCTORY SECTION

Letter of Transmittal

State Police Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517-322-5103
Outside Lansing 1-800-381-5111

STATE OF MICHIGAN

JOHN ENGLER, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

February 25, 2002

The Honorable John Engler
Governor, State of Michigan,

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the annual report of the Michigan State Police Retirement System (System) for fiscal year 2001.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the leadership team of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

The Michigan State Police Retirement System was established by legislation under Public Act 251 of 1935. It now operates under the provisions of Public Act 182 of 1986, as amended, and is administrated by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System is presented in Note 1 of the financial statements in the Financial Section of this report. The purpose of the System is to provide benefits for all State Police. The services performed by the staff provides benefits to members.

The 2001 annual report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditors' report, management's discussion and analysis, financial statements and notes of the System, and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

MAJOR GOALS ACCOMPLISHED

Our Mission

The ORS mission is to deliver pensions, related benefits, and services to promote the future financial security of our customers. This year was one of continued service to the 378,247 working and 170,624 retired members of the four retirement systems we administer. In addition to delivering pension payments totaling \$2,445,538,314, we have sought to protect and preserve the benefits of our members and ensure long-term solvency of the systems.

Excellence in Service; Partners in Progress

This Department of Management and Budget (DMB) vision has guided our ORS focus on providing *fast, easy access to complete and accurate information and exceptional service*.

The year saw some very significant improvements in access to information and customer service. On a less visible but no less significant note, much energy this year was devoted to positioning the organization for future demands as well as investigating the increased capabilities offered by new technologies.

Fast, Easy Access

Recognizing that retirement applications will dramatically increase in the next decade as baby boomers leave the workforce, we've been undertaking an extensive examination of our existing capacities, the best practices in the field, and the array of new productivity tools and technologies. With customer needs guiding every decision, we have focused this past year on a technology partnership that can help us provide excellence in service, while preparing and streamlining key processes in anticipation of the plan rollout.

We have also successfully pared down our business operations to seven core processes where responsibility and accountability for every aspect of the business are "owned" by the people who understand the business best.

Moving to a process-based organization requires flexibility and planning, along with appropriate skills and knowledge of the process owners and leaders, open communication, and clear goals. To address these challenges, the following were implemented this year:

- Throughout the Department of Management and Budget, competency based training was implemented to identify and provide the skills and knowledge needed for staff to excel in their job tasks.
- Expanded communication channels across the organization help foster free idea sharing and problem solving among process owners and leaders.
- A department-wide Balanced Scorecard management tool was developed to track progress toward our strategic plan goals. Providing clear targets and metrics in such a way helps staff determine priorities and direction.

We already see results of these initiatives. Some "fast, easy access" accomplishments of the year include:

- The ORS information and document management arena was restructured in preparation for online access to member information.
- Service level agreements were established with the many vendors that we partner with to define common understandings about services, expectations, and responsibilities, while also clarifying communication channels.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

Complete and Accurate Information

Clear customer communication, with current and easily accessible information, remains a priority. Some highlights of the year's communication endeavors include:

- A newly launched ORS employer website provides up-to-date information, instructions, publications and forms, and answers to frequently asked questions to the human resource offices that employ our members.
- Under contract with CitiStreet, a new website for deferred compensation and defined contribution plan participants offers online access to personal account information along with the ability to activate, change, calculate, inquire, and assign with the click of a mouse.
- Expansions and improvements were also made to the main ORS website, with additional forms, publications, schedules, and information available.
- We reached out to customers in or near their communities, where ORS representatives presented programs to 8,909 members (a 7% increase over last year) during 177 pre-retirement information meetings throughout the State.
- Updates to our principal information manual—*Retirement Guidelines* that help members plan for retirement—was published.
- We maintained communication with our 170,624 retired customers via *ORS Connections*, a semiannual newsletter and financial update mailed in March and October.

Exceptional Service

We believe that our standard of exceptional service has not lagged even as we work toward increasing our capacity to further improve service. The ORS Customer Information Center fielded 211,353 phone calls this year, an average of 852 each day. Another 15,734 callers took advantage of a new automated phone service for certain frequently requested services.

Personalized service was also provided by ORS retirement counselors who met with 3,740 customers at our main office in Lansing. At our Holland and Detroit outreach offices, counselors met with another 2,119 customers, in between answering nearly 50 customer phone calls each day (12,375 for the year).

Ever greater numbers are taking advantage of email; we have experienced nearly a 50% increase each year since it became available. Our representatives met the goal of responding to the 7,479 email requests received this year within one working day, on average.

Another significant accomplishment is the fact that, thanks to reengineering of our disability claims process and our new partnership with Disability Determination Services, we are now processing disability applications in one-third less time compared to the previous year. A milestone has also been achieved in retirement applications, with 95% of applications being processed to the pension payroll system before the retirement effective date.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

Customer Satisfaction

In our ongoing efforts to improve customer service, we conduct semiannual customer satisfaction surveys. This year's surveys continued to show very positive results, with 95% of our retired respondents rating our services as good or excellent.

While the data tells us that we are making solid strides toward our vision, it also inspires us to work even harder. As our improvement plans take shape, our sights will continue to center on customer service—and we're confident that our customers' satisfaction will increase accordingly.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended September 30, 2000. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

INTERNAL CONTROL

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

INVESTMENT

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of -11.7%. For the last five years, the System has experienced an annualized rate of return of 9.4%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

FUNDING

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. Effective in fiscal year 2001, the System used the actuarial valuation from the previous fiscal year for this report. This approach is consistent with Governmental Accounting Standards Board (GASB) Statement Number 25. Consistent with this approach, the most recent actuarial valuation was performed as of September 30, 2000. The actuarial value of the assets and actuarial accrued liability of the System were \$1.113 billion and \$1.041 billion,

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

respectively, resulting in a funded ratio of 107.0%. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

POSTEMPLOYMENT BENEFITS

The System also administers the postemployment health benefits (health, dental, and vision) offered to retirees. The benefits are funded on a cash or "pay as you go" basis. An actuarial valuation was completed as of September 30, 2000 to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately \$472 million and the employer contribution for health care benefits would be 29.09% of payroll.

PROFESSIONAL SERVICES

An annual audit of the System was conducted by Andrews Hooper & Pavlik P.L.C., independent auditors. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. This annual actuarial valuation was completed by the Segal Company for the fiscal year ended September 30, 2000. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

ACKNOWLEDGMENTS

The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the System.

We would, therefore, like to express our appreciation for the assistance given by staff, advisors and many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable the employers and plan members to better evaluate and understand the Michigan State Police Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,



Duane E. Berger, Director
Department of Management and Budget



Christopher M. DeRose, Director
Office of Retirement Services

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members

Dr. James S. Neubecker, C.P.A., Chair
Representing Auditor General
Statutory Member

Lt. Col. James R. Snody, Jr., Vice Chair
Retiree Member
Term Expires December 31, 2001

Jan Miller
Representing State Employer
Statutory Member

Sergeant Richard Hale
Representing Sergeants and Below
Term Expires December 31, 2003

Kenneth Harb
General Public
Term Expires December 31, 2003

George M. Elworth
Representing Attorney General
Statutory Member

Inspector Brian Ray
Representing Lieutenant and Above
Term Expires December 31, 2001

Roy Pentilla, C.P.A.
Representing State Treasurer
Statutory Member

Capt. Richard J. Darling
Representing Director, Dept. of
State Police
Statutory Member

Administrative Organization

Department of Management and Budget
Office of Retirement Services
P.O. Box 30171, Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

Advisors and Consultants

Actuary
The Segal Company
Michael J. Karlin, F.S.A., M.A.A.A.
New York, New York

Auditors
Thomas H. McTavish, C.P.A.
Auditor General
State of Michigan

Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan

**Investment Manager and
Custodian**
Douglas B. Roberts
State Treasurer
State of Michigan

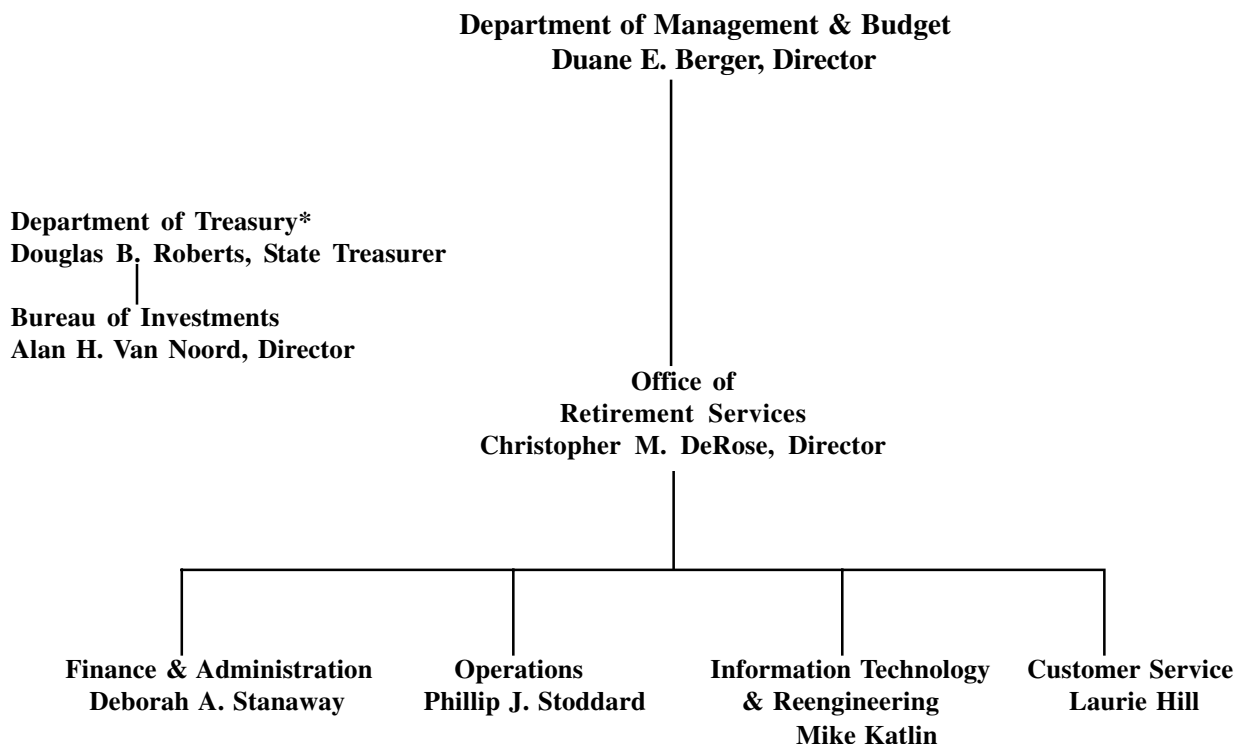
Legal Advisor
Jennifer M. Granholm
Attorney General
State of Michigan

**Investment Performance
Measurement**
Capital Resource Advisors
Chicago, Illinois

INTRODUCTORY SECTION

Administrative Organization

Organization Chart**



*The investments of the System are managed by the Michigan Department of Treasury. Information on the investments and the fiduciary, Michigan Department of Treasury, can be found in the Investment Section.

**The chart represents the organizational structure as of the fiscal year ended 2001. The Department of Management and Budget reorganized its divisional structure in early fiscal year 2002.

FINANCIAL SECTION



Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to Basic Financial Statements
Required Supplementary Information
Supporting Schedules

Independent Auditor's Report



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Mr. Duane Berger, Director, Department of Management and Budget
Mr. Christopher M. DeRose, Director, Office of Retirement Services
Mr. Thomas H. McTavish, CPA, Auditor General
Michigan State Police Retirement System Board

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan State Police Retirement System, as of September 30, 2001 and 2000, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan State Police Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan State Police Retirement System, as of September 30, 2001 and 2000, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of the Michigan State Police Retirement System's management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it. The Introductory, Investment, Actuarial, and Statistical Sections were not audited by us and, accordingly, we express no opinion on those sections.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 30, 2002 on our consideration of the Michigan State Police Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Andrews Hooper & Pavlik P.L.C.

January 30, 2002

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • ph 517.487.5000 fx 517.487.9535 • www.ahpplc.com

FINANCIAL SECTION

Management's Discussion and Analysis

Our discussion and analysis of the Michigan State Police Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2001. Please read it in conjunction with the transmittal letter in the Introductory Section on page 5 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded its liabilities at the close of fiscal year 2001 by \$1.0 billion (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- System funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2000, the funded ratio was approximately 106.9%.
- Revenues for the year were (\$91,689,863), which is comprised of contributions of \$46,108,660 and investment losses of (\$137,798,523).
- Expenses increased over the prior year from \$75,790,340 to \$83,730,216 or 10.5%. Most of this increase represented increased retirement benefits paid.

THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets* (page 18) and *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 19). These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employer Contributions to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

FINANCIAL ANALYSIS

System total assets as of September 30, 2001 were \$1.1 billion and were mostly comprised of cash, investments and contributions due from employers. Total assets decreased \$142,613,763 or 11.6% from the prior year primarily due to decreased investment earnings.

Total liabilities as of September 30, 2001 were \$49,467,900 and were mostly comprised of warrants outstanding, administrative costs, and obligations under securities lending. Total liabilities increased \$32,806,316 or 196.9% from the prior year primarily due to an increase in obligations under securities lending and an increase in payables from the purchase of investments.

Management's Discussions and Analysis (Continued)

System assets exceeded its liabilities at the close of fiscal year 2001 by \$1.0 billion. Total net assets held in trust for pension and health benefits decreased \$175,420,079 or 14.5% from the previous year, primarily due to adverse market conditions and a decrease in investment earnings. This is in contrast to the previous year, when net assets increased by \$106,511,545 or 9.6% from the prior year.

Michigan State Police Retirement System

Net Assets (In Thousands)

	2001	2000	Total Percentage Change
Assets			
Cash	\$ 7,020	\$ 4,388	60.0 %
Receivables	5,559	11,779	(52.8)
Investments	1,072,818	1,211,844	(11.5)
Total Assets	1,085,397	1,228,011	(11.6)
Liabilities			
Warrants outstanding	331	131	152.7
Accounts payable and other accrued liabilities	4,373	559	682.3
Obligations under securities lending	44,764	15,972	180.3
Total Liabilities	49,468	16,662	196.9
Total Net Assets	<u>\$ 1,035,929</u>	<u>\$ 1,211,349</u>	<u>(14.5) %</u>

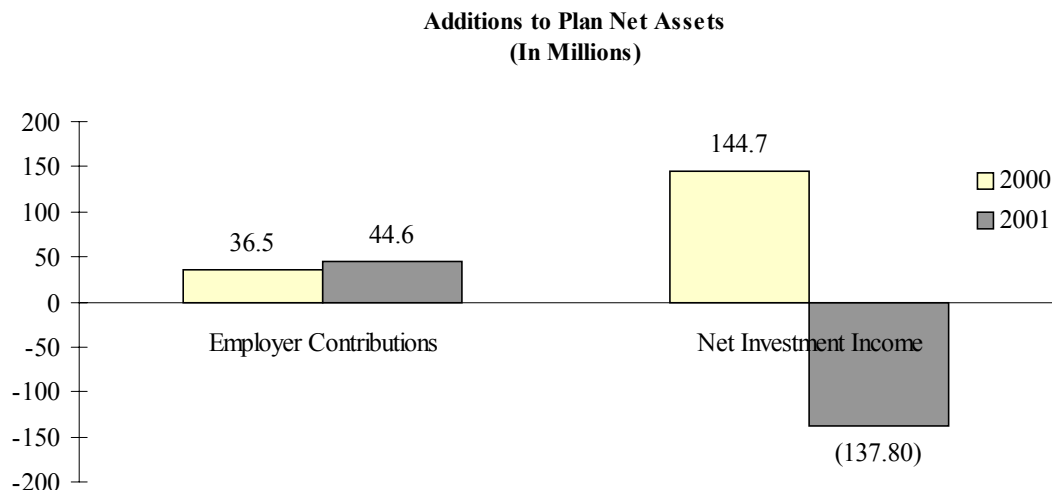
REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and health benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income/(losses) for fiscal year 2001 totaled (\$91,689,863).

Total contributions and net investment income decreased \$273,991,748 or 150.3% from those of the prior year, due to a drastic decline in market conditions and investment earnings. Total contributions increased from the previous year by \$8,464,618 or 22.5%. This increase is primarily due to an increase in the contribution rate. Investment income decreased from the previous year by \$282,456,366 or 195.3%. The Investment Section of this report reviews the results of investment activity for 2001.

FINANCIAL SECTION

Management's Discussion and Analysis (Continued)

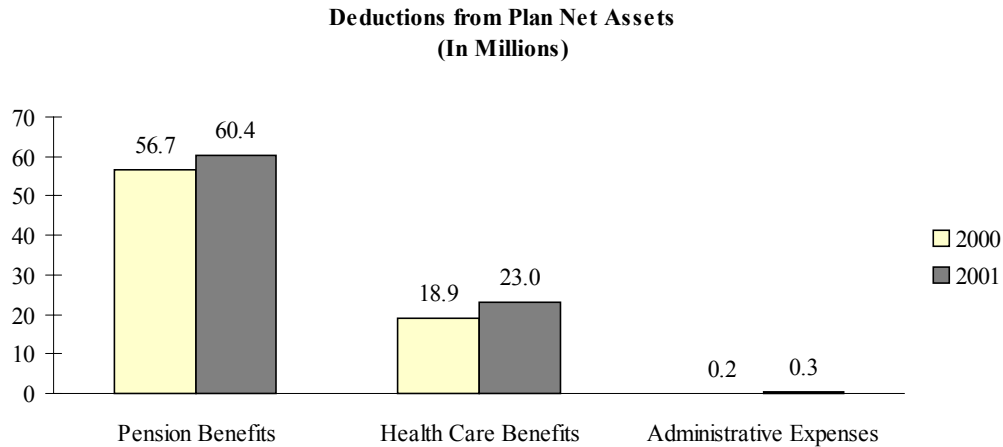


EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2001 were \$83,730,216, an increase of 10.5% over year 2000 expenditures.

The growth of health, dental and vision care expenditures continued during the year and increased by \$4,085,882 or 21.6% from \$18,938,222 to \$23,024,104 during the fiscal year. The payment of pension benefits increased by \$3,714,212 or 6.6% from the previous year. The increase in pension benefit expenditures resulted from an increase in retirees (45) and an increase in benefit payments to retirees. Administrative expenses increased by \$139,776 or 87.9% from the previous year, primarily due to a reallocation of expenses in the prior year for postage, telephone, and other, and an increase in professional services during the current year for special actuarial studies.

Management's Discussion and Analysis (Continued)



RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets have increased consistently over the last five years, with the exception of the decrease during the current fiscal year. Again, this decrease is a result of a national economic slowdown that resulted in investment income decreases. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations. We believe the current financial position will continue to improve due to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

FINANCIAL SECTION

Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2001 and 2000

	September 30, 2001			September 30, 2000		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Cash	\$ 7,019,863		\$ 7,019,863	\$ 4,388,200		\$ 4,388,200
Receivables:						
Amounts due from employer	1,075,156	\$ 687,395	1,762,551	875,691	\$ 559,868	1,435,559
Interest and dividends	3,780,875		3,780,875	4,437,208		4,437,208
Sale of investments	15,671		15,671	5,906,484		5,906,484
Total receivables	4,871,702	687,395	5,559,097	11,219,383	559,868	11,779,251
Investments:						
Short term investments	60,017,257		60,017,257	44,173,547		44,173,547
Bonds, notes, mortgages, and preferred stock	213,395,873		213,395,873	240,462,567		240,462,567
Common stock	427,070,730		427,070,730	544,219,228		544,219,228
Real estate	98,236,348		98,236,348	99,979,814		99,979,814
Alternative investments	160,314,731		160,314,731	190,026,521		190,026,521
International investments	69,019,156		69,019,156	77,010,108		77,010,108
Collateral on loaned securities	44,764,027		44,764,027	15,971,609		15,971,609
Total investments	1,072,818,122		1,072,818,122	1,211,843,394		1,211,843,394
Total assets	1,084,709,687	687,395	1,085,397,082	1,227,450,977	559,868	1,228,010,845
Liabilities:						
Warrants outstanding	330,942		330,942	131,001		131,001
Accounts payable and other accrued liabilities	1,174,874	3,198,057	4,372,931	(1,334,833)	1,893,807	558,974
Obligations under securities lending	44,764,027		44,764,027	15,971,609		15,971,609
Total liabilities	46,269,843	3,198,057	49,467,900	14,767,777	1,893,807	16,661,584
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits*	\$ 1,038,439,844	\$ (2,510,662)	\$ 1,035,929,182	\$ 1,212,683,200	\$ (1,333,939)	\$ 1,211,349,261

*A schedule of funding progress is presented in the Required Supplementary Information of the Financial Section.
The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets

For Fiscal Years Ended September 30, 2001 and 2000

	September 30, 2001			September 30, 2000		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Additions:						
Member contributions	\$ 197,234	\$ 1,265,408	\$ 1,462,642	\$ 16,793	\$ 1,098,440	\$ 1,115,233
Employer contributions	24,064,039	20,581,979	44,646,018	22,107,292	14,421,517	36,528,809
Investment income (loss):						
Investment income (loss)	(136,267,361)		(136,267,361)	146,168,854		146,168,854
Securities lending income	1,485,616		1,485,616	1,693,373		1,693,373
Investment expenses:						
Real estate operating expenses	(43,182)		(43,182)	(62,233)		(62,233)
Securities lending expenses	(1,367,693)		(1,367,693)	(1,582,883)		(1,582,883)
Other investment expenses	(1,605,909)		(1,605,909)	(1,559,305)		(1,559,305)
Miscellaneous income	6		6	37		37
Total additions	<u>(113,537,250)</u>	<u>21,847,387</u>	<u>(91,689,863)</u>	<u>166,781,928</u>	<u>15,519,957</u>	<u>182,301,885</u>
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	60,407,395		60,407,395	56,693,183		56,693,183
Health benefits		21,598,014	21,598,014		17,784,075	17,784,075
Dental/vision benefits		1,426,090	1,426,090		1,154,147	1,154,147
Refunds of member contributions		6	6			
Administrative expenses	298,711		298,711	158,935		158,935
Total deductions	<u>60,706,106</u>	<u>23,024,110</u>	<u>83,730,216</u>	<u>56,852,118</u>	<u>18,938,222</u>	<u>75,790,340</u>
Net Increase (Decrease)	<u>(174,243,356)</u>	<u>(1,176,723)</u>	<u>(175,420,079)</u>	<u>109,929,810</u>	<u>(3,418,265)</u>	<u>106,511,545</u>
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of Year	<u>1,212,683,200</u>	<u>(1,333,939)</u>	<u>1,211,349,261</u>	<u>1,102,753,390</u>	<u>2,084,326</u>	<u>1,104,837,716</u>
End of Year*	<u>\$ 1,038,439,844</u>	<u>\$ (2,510,662)</u>	<u>\$ 1,035,929,182</u>	<u>\$ 1,212,683,200</u>	<u>\$ (1,333,939)</u>	<u>\$ 1,211,349,261</u>

* A schedule of funding progress is presented in the Required Supplementary Information of the Financial Section.

The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan State Police Retirement System (System) is a single employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), originally created under Public Act 251 of 1935, recodified and currently operating under Public Act 182 of 1986. The System was established by the State to provide retirement, survivor and disability benefits to Michigan State Police. The System is a qualified trust fund under section 401(a) of the Internal Revenue Code.

The System's financial statements are included as a pension trust fund in the combined financial statements of the State.

The System is administered by the Office of Retirement Services within the Michigan Department of Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

MEMBERSHIP

At September 30, 2001, and 2000, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	<u>2001</u>	<u>2000</u>
Regular benefits	1,890	1,838
Survivor benefits	359	351
Disability benefits	<u>133</u>	<u>130</u>
Total	2,382	2,319
 Current employees:		
Vested	1,136	1,194
Non-vested	<u>1,001</u>	<u>1,016</u>
Total	2,137	2,210
 Inactive employees entitled to benefits and not yet receiving them	<u>24</u>	<u>41</u>
 Total All Members	<u><u>4,543</u></u>	<u><u>4,570</u></u>

Enrollment in the health care fund is voluntary. The number of participants is as follows:

Health/Dental/Vision Plan	<u>2001</u>	<u>2000</u>
Eligible participants	2,382	2,319
Participants receiving benefits:		
Health	2,130	2,079
Dental	2,099	2,047
Vision	2,102	2,050

Notes to Basic Financial Statements

BENEFIT PROVISIONS

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 182 of 1986, Michigan State Police Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability, and survivor benefits.

A member who leaves Michigan State Police employment may request a refund of his or her member contribution account. (The System is currently non contributory). A refund cancels a former member's rights to future benefits and there is no provision for repaying the refund of contributions to restore the service represented by the refund.

Regular Retirement

The retirement benefit is available if a member retires after 25 years of credited service (employment). The retirement benefit equals 60% of a member's final average compensation and is payable monthly over the lifetime of a member. Final average compensation is the average annual salary for a member's last two years of service with the Department of State Police.

Deferred Retirement

Any member with 10 or more years of credited service who terminates employment but has not reached the age of 50 is a deferred member and is entitled to receive a monthly allowance upon reaching age 50, provided the member's accumulated contributions have not been refunded. The deferred benefit is equal to two percent of the final average compensation times the years and partial years of service credit.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as an employee of the Michigan State Police is eligible for a non-duty disability pension. The non-duty disability benefit is 2.4% of the final average compensation times years and partial years of credited service (but not more than 25 years).

Duty Disability Benefit

A member who becomes totally and permanently disabled from performing duties as a Michigan State Police Officer is eligible for a duty disability pension. The amount, payable monthly, is equal to 60% of the final average compensation.

Survivor Benefit

Upon the death of a member who completed at least 10 years of service, the surviving spouse receives a benefit based on 2.4% of the final average compensation for each year and partial years of credited service. If there is no spouse, surviving children are entitled to equally share the benefit until age 18. If death occurs in the line of duty, the surviving spouse receives a benefit of 60% of the final average compensation. Children receive \$100 each month until age 18. A \$1,500 funeral expense is also authorized by State statute.

Effective October 1, 1996, the monthly pension paid to beneficiaries was increased 10% if certain requirements were met. This was a one time increase.

Each October 1, the benefit increases 2% (not to exceed \$500). This non-compounding increase is paid to beneficiaries who have been receiving benefits for 12 months.

FINANCIAL SECTION

Notes to Basic Financial Statements

Post Retirement Adjustments

Effective October 1, 1996, the monthly pension was increased 10% if certain requirements were met. This was a one time increase.

Each October 1, the benefits of all pension recipients increase 2% (not to exceed \$500). This non-compounding increase is paid to persons who have been retired 12 months.

Contributions

Member Contributions — Members currently participate on a noncontributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military, maternity or paternity leave, Peace Corps or VISTA service. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit are refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Employer Contributions — The statute requires that the employer contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-percent-of-payroll funding principles so that the contribution rates do not have to increase over time. A chart showing the employer contribution rates is included on the Schedule of Revenues by Source in the Statistical Section.

Other Post Employment Benefits

Under the Michigan State Police Retirement Act, all retirees have the option of continuing health, dental, and vision coverage. Retirees with this coverage contribute 5% and 10% of the monthly premium amount for the health, dental, and vision coverage, respectively. The State funds 95% of the health and 90% of the dental and vision insurance. The employer payroll contribution rate for health was 17% and 12% for 2001 and 2000, respectively.

Retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage, \$1,000 for spouse and \$1,000 for each dependent under age 23. Premiums are fully paid by the State.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

Financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue in the period in which employees provide service. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Reserves

Public Act 182 of 1986, as amended, created the Reserve for Employees' Contributions, Reserve for Retired Benefit Payments, Reserve for Employer Contributions, Reserve for Undistributed Investment Income, and Reserve for Health Benefits and Dental and Vision Benefits. The financial transactions of the System are recorded in these accounts as required by Public Act 182 of 1986, as amended.

Reserve for Employees' Contributions — Members do not contribute to this fund except to purchase eligible service credit. This fund represents active member contributions and interest less amounts transferred to the Pension Reserve for regular and disability retirement, amounts refunded to terminated members, and unclaimed amounts transferred to the income account. At September 30, 2001, and 2000, the balance in this account was \$368 thousand and \$383 thousand, respectively.

Notes to Basic Financial Statements

Reserve for Retired Benefit Payments — This represents the reserves for payment of future retirement benefits to persons already on the retirement rolls. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employees' Contributions. Monthly benefits, which are paid to the retirees, reduce this reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2001, and 2000, the balance in this account was \$676 million and \$633 million, respectively.

Reserve for Employer Contributions — All employer contributions are credited to this reserve. Interest from the Reserve for Undistributed Investment Income is credited annually. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. At September 30, 2001, and 2000, the balance in this account was \$182 million and \$194 million, respectively.

Reserve for Undistributed Investment Income — The reserve is credited with all investment earnings and changes in fair value of assets. Interest is transferred annually to the other reserves. Administrative expenses are paid from this reserve account. The legislature appropriates the funds necessary to defray and cover the administration of the plan. At September 30, 2001, and 2000, the balance of this reserve was \$180 million and \$385 million, respectively.

Reserve for Health Related Benefits — This reserve is credited with employer contributions for retirees' health benefits. From this reserve, the retirement system pays 95% of the premiums for hospitalization and medical coverage insurance and 90% of the monthly premium for dental and vision coverage insurance. At September 30, 2001, and 2000, the balance in this account was a negative \$2.5 million and a negative \$1.3 million, respectively.

Reporting Entity

The System is a pension trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Fair Value of Investments

Plan investments are reported at fair value, except for short-term investments. Short-term investments are carried at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments that do not have an established market are recorded at estimated fair value.

Investment Income

Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

FINANCIAL SECTION

Notes to Basic Financial Statements

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Postemployment Healthcare Plan Net Assets. Such assets are depreciated on a straight line basis over 10 years. The System does not have equipment that falls within these parameters.

Related Party Transactions

Leases and Services — The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The following summarizes costs incurred by the System for such services.

	2001	2000
Building Rentals	\$ 8,558	\$ 4,808
Technological Support	38,942	32,161
Attorney General	12,682	21,282
Investment Services	227,350	186,100

Cash — On September 30, 2001, and 2000, the System had \$7 million and \$4 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to \$176,893 and \$203,993 for the years ended September 30, 2001, and 2000, respectively.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 3 - CONTRIBUTIONS

Members currently participate in the System on a noncontributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or maternity leave. The State is required by Public Act 182 of 1986, as amended, to contribute amounts necessary to finance the benefits of its employees. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Periodic employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability is amortized over a 36-year period for the 2000 fiscal year and a 35-year period for the 2001 fiscal year.

Actual employer contributions for retirement benefits were \$24.1 million and \$22.1 million representing 20.3% and 19.0% of annual covered payroll for the years ended September 30, 2001 and 2000, respectively. Required employer contributions for pensions included:

1. \$25.7 million and \$25.8 million for fiscal years 2001 and 2000, respectively, for the normal cost of pensions representing 21.64% and 22.13%, respectively, of annual covered payroll.
2. (\$3.7) million and (\$1.5) million for fiscal years 2001 and 2000, respectively, for amortization of overfunded actuarial accrued liability representing (3.11%) and (1.29%), respectively, of annual covered payroll.

Notes to Basic Financial Statements

NOTE 4 - INVESTMENTS

Investment Authority

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Michigan Public Pension Investment Act, Public Act 314 of 1965, as amended. The Michigan Public Pension Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stock, corporate and government bonds and notes, mortgages, real estate, and certain short-term and alternative investments. Investments must be made for the exclusive purposes of providing benefits to active members, retired members and beneficiaries, and for defraying the expenses of investing the assets.

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of its assets or employees in Michigan as described in section 20(a) of the act and up to 20% of the System's assets in investments not otherwise qualified under the act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock, and direct investments.

Derivatives

The State Treasurer does not employ the use of derivatives in the investment of the Common Cash or the investment of trust funds other than the pension trust funds.

Derivatives are used in managing the pension trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 7% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, collateralized mortgages, and swap agreements. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 6.5% of the market value of total assets on September 30, 2001 and 6.2% of market value of total assets on September 30, 2000.

To diversify the pension fund's portfolio into international equities, the State Treasurer has entered into swap agreements with investment grade counterparties which are tied to stock market indices in twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2001, and 2000, were \$84.9 million and \$67.1 million, respectively. Approximately one half of the notional amount is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London InterBank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the international equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2001 to October 2004. U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes. The book value represents the cost of the notes. The current value represents the current value of the notes and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. Since the inception of the international equity investment program, over \$24.5 million of gains on international equity exposure and excess interest received have been realized. The unrealized loss of \$18.0 million at September 30, 2001 reflects the decline in international stock indices and changes in currency exchange rates.

FINANCIAL SECTION

Notes to Basic Financial Statements

The respective September 30, 2001 and 2000 values are as follows:

	Notional Value	Current Value
9/30/01 (dollars in millions)	\$84.9	\$67.2
9/30/00 (dollars in millions)	67.1	74.4

Investments Exceeding 5% of Plan Net Assets

The System did not hold an individual investment (other than U.S. Government securities) that exceeded 5% of net assets available for benefits at September 30, 2001 or 2000.

Securities Lending

State statutes allow the System to participate in securities lending transactions, and the System has, via a Securities Lending Authorization Agreement, authorized the agent bank to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, the agent bank lent, at the direction of the System, the System's securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds and irrevocable bank letters of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) at least 102% of the market value of the loaned securities in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The System did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2001, such investment pool had an average duration of 75 days and an average weighted maturity of 551 days. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2001, the System had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the System as of September 30, 2001, were \$47,332,299 and \$45,480,685, respectively.

Gross income from security lending for the fiscal year was \$1,485,616. Expenses associated with this income amounted to \$1,328,375 for the borrower's rebate and \$39,318 for fees paid to the agent.

Categories of Investment Risk

Investments made by the fund are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk in three categories.

FINANCIAL SECTION

Notes to Basic Financial Statements

Category 1 includes investments that are insured, registered, or held by the System or its agent in the System's name. Category 3 includes uninsured and unregistered investments that are held by the counterparty, its trust department, or agent, but not in the System's name.

At September 30, 2001, all investments of the System were classified as Category 1 or Category 3, except for certain investments that were not categorized.

The following table summarizes the investments at market value:

<u>Category 1</u>	<u>2001</u>	<u>2000 (Reclassified)</u>
Prime Commercial Paper	\$ 53,117,257	\$ 39,489,208
Short Term Investments	4,600,000	4,684,339
Government Securities	72,594,812	131,580,501
Corporate Bonds & Notes	104,353,248	97,218,463 ²
Preferred Stock	42	35
Common Stock	417,861,039	539,979,368
Real Estate	2,165,692	5,899,586 ¹
Alternative Investments	6,670,612	18,795,176 ³
International Investments	69,019,156	77,010,108
Total Category 1	\$ 730,381,858	\$ 914,656,784
<u>Category 3</u>		
Government Securities	\$ 1,879,215	\$ -
<u>Non-Categorized</u>		
Short Term Investments	\$ 2,300,000	\$ -
Mortgages	360,416	358,384
Real Estate	96,070,656	94,080,228 ¹
Alternative Investments	153,644,119	171,231,345 ³
Cash Collateral	44,764,027	15,971,609
Securities on Loan:		
Government Securities	32,834,098	10,852,589
Corporate Bonds & Notes	1,374,042	452,595
Common Stock	9,209,691	4,239,860
Total Non-Categorized	\$ 340,557,049	\$ 297,186,610
Grand Total	\$ 1,072,818,122	\$ 1,211,843,394

¹ In Category 1, the Real Estate investments are all publicly traded real estate investment trusts. Non-Categorized Real Estate consists of investments in real estate through various legal entities.

² Private Placements were reclassified from Non-Categorized to Corporate Bonds and Notes Category 1 in the amount of \$6,943,772 for FYE 2000.

³ Alternative Investments were reclassified in the amount of \$3,736,973 from Non-Categorized to Category 1 For FYE 2000.

FINANCIAL SECTION

Notes to Basic Financial Statements

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Under the Administrative Procedures Act, members may appeal a decision by the Board. Once the administrative procedure has been exhausted, the decision may be appealed in Michigan's court system. Various cases that have exhausted the administrative procedures have been appealed in the court system. These cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

Required Supplementary Information

Schedule of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded or overfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Retirement Benefits

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability ³ (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1991	\$ 468,303,512	\$ 595,180,034	\$ 126,876,522	78.7 %	\$ 91,626,979	138.5 %
1992	488,711,130	632,040,727	143,329,597	77.3	89,899,102	159.4
1992 ¹	488,711,130	644,370,241	155,659,111	75.8	89,899,102	173.1
1993	526,192,904	680,511,499	154,318,595	77.3	86,791,793	177.8
1993 ²	530,936,296	680,511,499	149,575,203	78.0	86,791,793	172.3
1994	566,541,199	709,298,262	142,757,063	79.9	88,623,068	161.1
1994 ⁴	566,541,199	711,840,905	145,299,706	79.6	88,623,068	164.0
1995	622,625,951	798,820,493	176,194,542	77.9	104,500,048	168.6
1996	697,922,641	823,461,255	125,538,614	84.8	106,826,290	117.5
1997	787,239,852	880,325,872	93,086,020	89.4	110,085,960	84.6
1997 ²	928,714,323	880,325,872	(48,388,451)	105.5	110,085,960	(44.0)
1997 ⁵	928,714,323	876,759,081	(51,955,242)	105.9	110,085,960	(47.2)
1998	974,364,628	943,724,818	(30,639,810)	103.2	108,183,040	(28.3)
1998 ⁴	974,364,628	962,468,406	(11,896,222)	101.2	108,183,040	(11.0)
1999	1,036,840,136	1,006,528,278	(30,311,858)	103.0	116,910,216	(25.9)
2000	1,113,065,173	1,040,713,611	(72,351,562)	107.0	116,558,417	(62.1)

¹ Benefits amended.

² Change in asset valuation method.

³ Based on entry age normal actuarial method.

⁴ Assumption change.

⁵ Change in inflation.

FINANCIAL SECTION

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Fiscal Year Ended Sept. 30	Actuarial Required Contribution (ARC)*	Actual Contributions	Percentage Contributed
1992	\$ 23,277,902	20,555,646	88.3 %
1993	23,909,930	22,997,155	96.2
1994	23,768,031	23,360,943	98.3
1995	27,916,677	25,047,023	89.7
1996	35,149,438	35,994,833	102.4
1997	30,821,696	35,142,572	114.0
1998	20,257,237	20,003,807	98.7
1999	22,733,833	21,609,520	95.1
2000	24,266,567	22,107,292	91.1
2001	21,989,439	24,064,039	109.4

* The ARC has been recalculated based on the covered payroll for each year.

FINANCIAL SECTION

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension benefits as they become due.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.

The Schedule of Funding Progress and Schedule of Employer Contributions are reported as historical trend information. The Schedule of Funding Progress is presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedule of Employer Contributions is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	09/30/00
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent, Closed
Remaining Amortization Period	36 Years
Asset Valuation Method	5-Year Smoothed Market Value
Actuarial Assumptions:	
Investment Rate of Return	8%
Projected Salary Increases	4.7% - 84%
Includes Inflation at	4%
Cost-of-Living Adjustments	2% annual non-compounded with maximum annual increase of \$500

FINANCIAL SECTION

Supporting Schedules

Comparative Summary Schedule of Pension Plan Administrative Expenses For the Years Ended September 30, 2001 and 2000

	2001	2000
Personnel Services:		
Staff Salaries	\$ 57,986	\$ 56,179
Retirement and Social Security	12,390	10,853
Other Fringe Benefits	9,723	8,622
Total	<u>80,099</u>	<u>75,654</u>
Professional Services:		
Actuarial	76,165	40,454
Attorney General	12,682	21,282
Audit	21,887	37,766
Consulting	14,806	9,336
Medical	5,714	2,381
Total	<u>131,254</u>	<u>111,219</u>
Building Equipment		
Building Rentals	8,558	4,808
Equipment Purchase, Maintenance, and Rentals	2,741	4,620
Total	<u>11,299</u>	<u>9,428</u>
Miscellaneous:		
Travel and Board Meetings	965	574
Office Supplies	1,447	1,008
Postage, Telephone and Other	30,850	(78,214)
Printing	3,855	7,105
Technological Support	38,942	32,161
Total	<u>76,059</u>	<u>(37,366)</u>
Total Administrative Expenses	<u>\$ 298,711</u>	<u>\$ 158,935</u>

Supporting Schedules (Continued)**Schedule of Investment Expenses**

	<u>2001</u>	<u>2000</u>
Securities Lending Expenses	\$ 1,367,693	\$ 1,582,883
Real Estate Operating Expenses	43,182	62,233
Other Investment Expenses*	<u>1,605,909</u>	<u>1,559,305</u>
Total Investment Expenses	<u>\$ 3,016,784</u>	<u>\$ 3,204,421</u>

* See Investment Section for fees paid to investment professionals

Schedule of Payments to Consultants

	<u>2001</u>	<u>2000</u>
Independent Auditors	\$ 21,887	\$ 37,766
Consulting	14,806	9,336
Medical	5,714	2,381
Attorney General	12,682	21,282
Actuary	<u>76,165</u>	<u>40,454</u>
Total Payment to Consultants	<u>\$ 131,254</u>	<u>\$ 111,219</u>

FINANCIAL SECTION

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits) For the Year Ended September 30, 2001

	Employee Contributions	Employer Contributions	Retired Benefit Payments*	Undistributed Investment Income	Health Related Benefits	Total
Additions:						
Member contributions	\$ 197,234				\$ 1,265,408	\$ 1,462,642
Employer contributions		\$ 24,064,039			20,581,979	44,646,018
Investment income (loss):						
Investment income (loss)				\$ (136,267,361)		(136,267,361)
Securities lending income				1,485,616		1,485,616
Investment expenses:						
Real estate operating expenses				(43,182)		(43,182)
Securities lending expenses				(1,367,693)		(1,367,693)
Other investment expenses				(1,605,909)		(1,605,909)
Miscellaneous income				6		6
Total additions	<u>197,234</u>	<u>24,064,039</u>		<u>(137,798,523)</u>	<u>21,847,387</u>	<u>(91,689,863)</u>
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			\$ 60,407,395			60,407,395
Health benefits					21,598,014	21,598,014
Dental/vision benefits					1,426,090	1,426,090
Refunds of member contributions					6	6
Administrative expenses				298,711		298,711
Total deductions			<u>60,407,395</u>	<u>298,711</u>	<u>23,024,110</u>	<u>83,730,216</u>
Net Increase (Decrease)	<u>197,234</u>	<u>24,064,039</u>	<u>(60,407,395)</u>	<u>(138,097,234)</u>	<u>(1,176,723)</u>	<u>(175,420,079)</u>
Other Changes in Net Assets:						
Interest allocation	11,347	15,554,813	50,664,828	(66,230,988)		
Transfers upon retirement	(223,662)		223,662			
Transfers of employer shares		(51,961,538)	51,961,538			
Total other changes in net assets	<u>(212,315)</u>	<u>(36,406,725)</u>	<u>102,850,028</u>	<u>(66,230,988)</u>		
Net Increase (Decrease) After Other Changes	<u>(15,081)</u>	<u>(12,342,686)</u>	<u>42,442,633</u>	<u>(204,328,222)</u>	<u>(1,176,723)</u>	<u>(175,420,079)</u>
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of Year	<u>383,239</u>	<u>194,435,158</u>	<u>633,310,348</u>	<u>384,554,455</u>	<u>(1,333,939)</u>	<u>1,211,349,261</u>
End of Year	<u>\$ 368,158</u>	<u>\$ 182,092,472</u>	<u>\$ 675,752,981</u>	<u>\$ 180,226,233</u>	<u>\$ (2,510,662)</u>	<u>\$ 1,035,929,182</u>

*Casualty Reserve is included.

FINANCIAL SECTION

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits) For the Year Ended September 30, 2000

	Employee Contributions	Employer Contributions	Retired Benefit Payments*	Undistributed Investment Income	Health Related Benefits	Total
Additions:						
Member contributions	\$ 16,793				\$ 1,098,440	\$ 1,115,233
Employer contributions		\$ 22,107,292			14,421,517	36,528,809
Investment income:						
Investment income				\$ 146,168,854		146,168,854
Securities lending income				1,693,373		1,693,373
Investment expenses:						
Real estate operating expenses				(62,233)		(62,233)
Securities lending expenses				(1,582,883)		(1,582,883)
Other investment expenses				(1,559,305)		(1,559,305)
Miscellaneous income				37		37
Total additions	<u>16,793</u>	<u>22,107,292</u>		<u>144,657,843</u>	<u>15,519,957</u>	<u>182,301,885</u>
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			\$ 56,693,183			56,693,183
Health benefits					17,784,075	17,784,075
Dental/vision benefits					1,154,147	1,154,147
Administrative expenses				158,935		158,935
Total deductions			<u>56,693,183</u>	<u>158,935</u>	<u>18,938,222</u>	<u>75,790,340</u>
Net Increase (Decrease)	<u>16,793</u>	<u>22,107,292</u>	<u>(56,693,183)</u>	<u>144,498,908</u>	<u>(3,418,265)</u>	<u>106,511,545</u>
Other Changes in Net Assets:						
Interest allocation	14,493	17,260,301	46,607,809	(63,882,603)		
Transfers upon retirement	(111,917)		111,917			
Transfers of employer shares		(60,686,197)	60,686,197			
Total other changes in net assets	<u>(97,424)</u>	<u>(43,425,896)</u>	<u>107,405,923</u>	<u>(63,882,603)</u>		
Net Increase (Decrease) After Other Changes	<u>(80,631)</u>	<u>(21,318,604)</u>	<u>50,712,740</u>	<u>80,616,305</u>	<u>(3,418,265)</u>	<u>106,511,545</u>
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of Year	<u>463,870</u>	<u>215,753,762</u>	<u>582,597,608</u>	<u>303,938,150</u>	<u>2,084,326</u>	<u>1,104,837,716</u>
End of Year	<u>\$ 383,239</u>	<u>\$ 194,435,158</u>	<u>\$ 633,310,348</u>	<u>\$ 384,554,455</u>	<u>\$ (1,333,939)</u>	<u>\$ 1,211,349,261</u>

*Casualty Reserve is included.

INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

Alan H. Van Noord, Director

Report on Investment Activity
Asset Allocation
Investment Results
List of Largest Stock Holdings
List of Largest Bond Holdings
Schedule of Investment Fees
Schedule of Investment Commissions
Investment Summary

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

The State Treasurer reports quarterly the investment activity to the Investment Advisory Committee, which reviews the investments, goals and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The Investment Advisory Committee may also, by a majority vote, direct the State Treasurer to dispose of any holdings which, in the Committee's judgement, are not suitable for the funds involved, and may, by unanimous vote, direct the State Treasurer to make specific investments.

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Consumer and Industry Services and the Director of the Department of Management and Budget are ex-officio members. The members of the committee are as follows: John B. Henry, PHD (public member), Robert E. Swaney, CFA (public member), David G. Sowerby (public member), Kathleen M. Wilbur (ex-officio member), and Duane E. Berger (ex-officio member). The public members serve without pay, but are paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOAL

The primary function of the System is to provide retirement, survivor and disability benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment rate of return, at a reasonable cost achieved by cultivating a motivated team of dedicated professionals. The goals of the fund are:

1. To achieve a balance between risk and return.
2. To outperform the actuarial assumption over the long term.
3. To perform in the top half of the Capital Resource Advisors public plan universe.
4. To exceed individual asset class benchmarks over the long term.
5. Seek to maintain a fully funded position.
6. To produce competitive results while operating in a cost-effective manner relative to peers.

The strategy for achieving these goals is carried out by investing the assets of the System according to a five-year asset allocation model. The System currently has seven different asset classes, which provides for a well-diversified portfolio.

Asset Allocation **(Excludes Collateral on Loaned Securities)**

Investment Category	As of 9/30/01 Actual %	Five-Year Target %
Mortgages	0.0%	0.0%
International Equities-Passive	6.7%	10.0%
Real Estate	9.5%	9.8%
Alternative Investments	15.5%	14.7%
Short Term Investments	6.4%	2.0%
Fixed Income	20.6%	17.0%
Domestic Equity	41.3%	46.5%
TOTAL	100.0%	100.0%

INVESTMENT SECTION

Report on Investment Activity

STATE LAW

Pursuant to State Law (Section 91 of Act No. 380 of the Public Acts of 1965, as amended), the State Treasurer is the investment fiduciary for the following four State sponsored retirement systems: Michigan Public School Employees' Retirement System; Michigan State Employees' Retirement System; Michigan State Police Retirement System; and Michigan Judges' Retirement System.

Act No. 314 of the Public Act of 1965, as amended, authorizes the investment of assets of public employee retirement systems or plans created and established by the State or any political subdivision.

PROXY VOTING POLICY

The System's Proxy Voting Policy sets forth directives on the following issues: Board of Directors, corporate governance, social issues, corporate restructures and defenses. All proxies are reviewed and voted in accordance with the above mentioned items.

INVESTMENT RESULTS

Total Portfolio Result

For the fiscal year ended September 30, 2001, the total portfolio returned -11.7% as compiled by Capital Resource Advisors. Annualized for the three-year period, the fund returned 5.3%; and for the five-year period, the fund returned 9.4%.

During the fiscal year ending September 30, 2001, the nation's economy experienced an economic slowdown, rising unemployment, reduced consumer spending, and corporate earnings that did not meet expectations. On September 11, 2001, all hopes of an economic recovery were dashed by terrorist attacks on New York City and Washington, D.C. As a result, the economy experienced a decline in the nation's real gross domestic product of -.04% for the fourth quarter of the fiscal year. In hopes of stimulating the economy, the Federal Reserve reduced rates by three and one-half percent over eight different occasions throughout the fiscal year.

As a result of the economic conditions, the broad based S&P 500 index declined 26.6% over the fiscal year with the Dow Jones Industrial Average off 15.5%. Value stocks, in turn, outperformed growth stocks during this period. Given the reductions in interest rates by the Federal Reserve, the Lehman Brothers Government/Corporate bond index appreciated 13.2%.

The returns were calculated using a time-weighted rate of return in accordance with standards of the Association for Investment Management and Research (AIMR), unless a modification is described in the discussion of the return.

The System is well diversified among asset classes. As of September 30, 2001, the portfolio consisted of 41.3% domestic equities, 20.6% fixed income, 15.5% alternative investments, 9.5% real estate, 6.4% short-term investments, and 6.7% international equities.

Domestic Stocks - Active

The objective of actively managed domestic stock investments is long-term capital appreciation by investing in publicly traded stocks of primarily U.S.-based companies. Monies are invested in a portfolio of large company Value stocks and a portfolio of large company Growth stocks. Since historical rates of return for value and growth strategies have been negatively correlated, this allows for further diversification and focused selection of investments. Value investing derives its returns from the market's tendency to periodically undershoot a stock's fair value and then eventually corrects back to fair value. Growth stock returns accrue from longer-term broad themes from which companies evolve that will grow faster than the economy. Both portfolios are diversified among various securities and industries.

INVESTMENT SECTION

Report on Investment Activity

As we reported one year ago, the Federal Reserve took action to put the brakes on a rapidly expanding economy. The Federal Reserve raised rates six times between June 1999 and June 2000, taking the Fed Funds rate from 4.75% to 6.50%. As a result, both U.S. real Gross Domestic Product (GDP) and corporate earnings growth came to a screeching halt. Real GDP finally fell into negative territory in the September 2001 quarter, declining .4%, while corporate earnings realized negative year-over-year comparisons for the entire fiscal year. Operating earnings for the S&P 500 declined 26.6% for the 12-month period ending September 2001. Obviously, the terrorist acts of September 11 had a significant negative impact on the U.S. economy for the final month of the fiscal year.

As a result of the dismal state of the economy, equity markets continued the declines begun in the spring of 2000. Total return for the Dow Jones Industrial Average was -15.5% for the 12 months ending September 2001, while the broader S&P 500 was -26.6%. The NASDAQ's price fell by more than half at -59.2%. No S&P 500 sector produced positive returns during the fiscal year. Technology was the most impacted, declining 59%.

On a positive note, the Federal Reserve reversed course quickly, lowering short-term rates eight times between January 2001 and September 2001, for a total reduction of 3.50 percentage points. Congress moved to stimulate the economy by enacting over \$1 trillion in federal tax cuts, including rebate checks. Energy prices declined and inflation fell to an annual rate of 2.6% as measured by the CPI.

The System's large company Value portfolio achieved a total rate of return of -3.3% for fiscal 2001. This compared very favorably with -16.9% for the S&P 500 BARRA Value Index due to the fund's significant investment in financial stocks and little exposure to technology and telecommunication stocks. The large company Growth portfolio's total rate of return was -34.9% for the fiscal year versus -35.7% for the S&P 500 BARRA Growth Index. The fund performed better than the index because of positions in the healthcare sector and less-than-average exposure to the technology group. Because these two portfolios were created effective January 31, 2000, we do not have three-year or five-year rates of return.

On a consolidated basis, the actively managed domestic stocks portfolio had a total rate of return of -20.2% for fiscal year 2001 compared to -26.6% for the S&P 500 Index. Three-year and five-year annualized returns were 2.0% and 9.2%. This compared with 2.0% and 10.2% for the S&P 500.

At the close of fiscal year 2001, large company Value stocks represented 14.1% of total investments; large company Growth stocks represented 13.1%. Consolidated actively managed domestic stocks represented 27.2% of total investments, compared to 30.4% at the end of fiscal year 2000.

Domestic Stocks - Passive

The objective of the enhanced S&P 500 and S&P MidCap Index Funds is to closely match the return performance of their benchmarks, and use low risk strategies to offset transaction costs and add to performance when possible. The S&P 500 Index Fund return for the fiscal year was -26.2% versus the benchmark's -26.6%. The S&P MidCap Index Fund return for the fiscal year was -17.7% versus its benchmark's -19.0%. The relative enhancements to the returns were the result of strategic allocations of additional funds to passive equity investments during market corrections and the opportunistic use of derivative programs. During fiscal year 2001, \$12.9 million was added to U.S. index funds. At the end of the fiscal year, passive domestic stock portfolios represented 14.2% of total assets, the S&P 500 Index Fund accounting for 13.0% and the S&P MidCap Index Fund 1.2%. Indexed stock portfolios represented 15.0% of total investment assets at the end of the prior fiscal year.

International Equities - Passive

The objective of the passive international equity portfolios is to match the return performance of the Salomon Smith Barney Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return of -27.1% in the fiscal year compared favorably with the Salomon Smith Barney BMI-EPAC return of -27.7%. The passive international return of 2.0% for three years compared well with the benchmark's return of 1.6% over the same period.

INVESTMENT SECTION

Report on Investment Activity

Core passive exposure to international equity returns is achieved by investing in a combination of fixed income notes and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the Salomon Smith Barney Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in those country indices. Use of the swap agreements for a core position began in 1993, and an American Depositary Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase management flexibility. During fiscal year 2001, \$18.1 million of exposure was added, raising passive international investments to 6.7% of total investment assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at \$67.2 million on September 30, 2001. That valuation included a net unrealized loss of \$18.0 million on equity index exposures and an unrealized loss of \$45 thousand on LIBOR note investments held. During fiscal year 2001, \$1.8 million of gains on equity exposures were realized, and \$.7 million of interest in excess of obligations on completed swaps was also recognized. At the end of the fiscal year, total realized gains and net interest received in excess of counterparty obligations on completed agreements reached a record \$24.5 million since the program began.

Fixed Income (Excluding Mortgages)

For the fiscal year ending September 30, 2001, the fixed income portfolio had a 12.2% rate of return as compiled by Capital Resource Advisors. The portfolio also returned 6.1% for three years and 7.7% for five years.

Rates continued to decline during the year in response to the Federal Reserve's repeated reductions in rates and the Treasury's intention to cease further issuance of thirty-year bonds. In addition to rates declining in all maturities there was also a significant steepening of the yield curve. Given the mathematics of bond calculation, long-term government bonds tended to outperform most other sectors.

As rates approached their lowest levels in twenty or more years, a defensive reinvestment program concentrating on shorter-term intermediate issues and floating rate securities was opted. While offering greater liquidity and protection from rising rates they tend to under perform in a declining rate market.

Fixed income represented 20.6% of the total portfolio compared with 20.0% last year. The corporate sector represented 49.6% of fixed income securities with government securities accounting for 50.4%. Last year corporate securities were 40.7% of the total with government securities representing 59.3%. The increased level of corporate securities was the result of quality spreads widening.

Real Estate Equity

For the fiscal year ending September 30, 2001, 9.5% of the total investment portfolio was invested in equity real estate. This compares to 8.3% and 7.5% for the fiscal years ending September 30, 2000, and 1999, respectively. The five-year target asset allocation for equity real estate investments is 9.8%.

The one-year, three-year and five-year total equity real estate net returns for the fiscal year ending September 30, 2001, were 9.5%, 11.2% and 12.0%, respectively, as compiled by Capital Resource Advisors. This compares to the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index returns of 9.4%, 10.6% and 11.9% relating to the same periods. As of September 30, 2001, the NCREIF portfolio of properties is more weighted in the office sector at 42.0%, versus the System's portfolio at 24.0%. The historical volatility of the office sector returns makes it generally a more risky property type, especially during economic downturns. Because the NCREIF returns are quoted before advisor fees/overhead and the System's returns are quoted after all advisor fees/overhead, the NCREIF returns stated above have been adjusted downward by 75 basis points to approximate comparable returns.

The real estate investments are broadly diversified geographically across the country, by type of property, and by class of property, to reduce risk. Major property types as of September 30, 2001, included apartments (42%); retail centers, including regional malls and grocery anchored neighborhood/community shopping centers (28%); commercial office

INVESTMENT SECTION

Report on Investment Activity

buildings (24%); and miscellaneous property types, such as industrial and self storage (6%). The System, through its advisors and operating joint ventures, acquires, develops, redevelops, and disposes of real estate with the goal of maximizing returns while maintaining an *acceptable* level of risk. The properties are held in various investment vehicles: partnerships, LLCs, trusts, commingled funds, and REIT stock. These legal entities allow the System to enjoy the benefits of real estate ownership while limiting the liability associated with the asset class. In all new investments, the System negotiates approval rights over critical decisions in order to further mitigate risk. The properties are regularly valued by independent appraisers to establish fair market values.

Real Estate Debt (Mortgages)

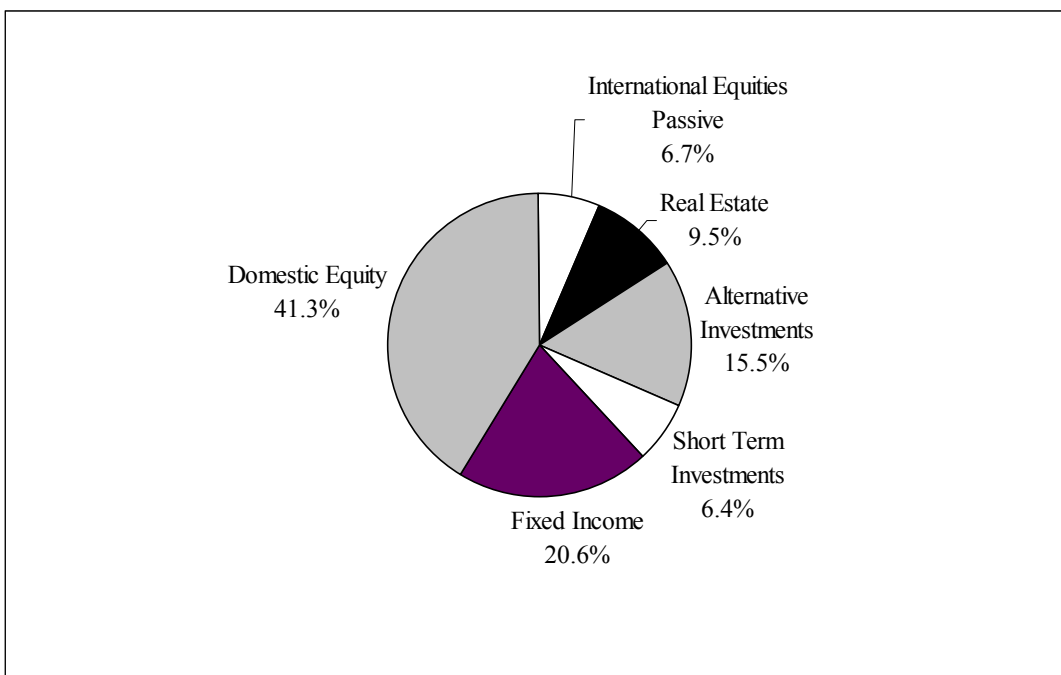
For the year ending September 30, 2001, less than 0.1% of the total investment portfolio was invested in direct mortgages. The asset allocation objective is to reduce mortgage holdings to 0.0% over time, a majority of the mortgage portfolio was sold in 1997 and 1998. The one-year, three-year, and five-year total returns for the mortgage portfolio for the fiscal year ending September 30, 2001, were 8.3%, 6.3%, and 7.0%, respectively.

Alternative Investments

Alternative Investments are investments in the private equity market, either directly in companies or indirectly through limited partnerships. Through September 30, 2001, approximately 96.0% of alternative investments were made through limited partnerships. Of the investments in limited partnerships, approximately 12.0% were in partnerships investing internationally. The remaining 4.0% were direct private equity investments and public stock distributions received from the limited partnerships. The percentage of assets in alternative investments has consistently increased from 4.8% as of September 30, 1993, to 15.5% as of September 30, 2001. The asset allocation range for alternative investments is 15% to 20% while the long-term target asset allocation is 14.7%. The one-year, three-year and five-year total alternative investment returns for the fiscal year ending September 30, 2001, were -16.9%, 10.0% and 14.4%, respectively.

INVESTMENT SECTION

Asset Allocation



Investment Results for the Period Ending September 30, 2001

Investment Category	Current Year	Annualized Rate of Return		
		3 Years	5 Years	10 Years
Total Portfolio	(11.7) %	5.3 %	9.4 %	10.2 %
Domestic Equities Stock - Active	(20.2)	2.0	9.2	13.0
Domestic Equities Stock - Passive*	(25.7)	3.2	10.7	13.3
Standard & Poor's (S&P 500)	(26.6)	2.0	10.2	12.7
Standard & Poor's (MidCap)	(19.0)	13.3	13.7	14.5
Standard & Poor's (S&P 1500)	(25.7)	3.0	10.2	N/A
International Equities - Passive	(27.1)	2.0	3.7	N/A
Net Salomon BMI - EPAC 50/50	(27.7)	1.6	2.4	N/A
Fixed Income Bonds (U.S. Corp and Govt)	12.2	6.1	7.7	8.0
Salomon Smith Barney Broad Investment Grade Bond Index	13.1	6.4	8.1	7.8
Lehman Brothers Government/Corporate	13.2	5.9	8.0	7.8
Mortgages	8.3	6.3	7.0	7.7
Salomon Smith Barney Broad Investment Grade Bond Index	13.1	6.4	8.1	7.8
Real Estate - Equity	9.5	11.2	12.0	7.2
NCREIF minus 75 Basis Points	9.4	10.6	11.9	6.7
Alternative Investments	(16.9)	10.0	14.4	14.4

* Passive portfolio consists of a S&P 500 fund and a S&P Midcap fund. The return is a weighted average of the two funds.

N/A Not available.

INVESTMENT SECTION

Largest Assets Held

Largest Stock Holdings (By Market Value)* September 30, 2001

Rank	Shares	Stocks	Market Value
1	452,693	Pfizer Incorporated	\$ 18,152,989
2	448,002	General Electric Corporation	16,665,674
3	266,076	Microsoft Corporation	13,615,109
4	325,947	Citigroup Incorporated	13,200,854
5	142,375	I Shares S&P Midcap 400	12,336,794
6	304,246	Exxon Mobil Corporation	11,987,292
7	229,143	Wal-Mart Stores Incorporated	11,342,579
8	106,223	Federal National Mortgage Association	8,504,213
9	174,845	Wells Fargo & Company	7,771,860
10	66,988	International Business Machines	6,182,992

Largest Bond Holdings (By Market Value)* September 30, 2001

Rank	Par Amount	Bonds & Notes	Market Value
1	\$ 7,957,000	U.S. Treasury Bonds at 9.125% Due 5-15-2009	\$ 9,059,761
2	6,352,500	U.S. Treasury 0% Coupon Strips Due 8-15-2003	6,020,772
3	4,660,000	Ford Motor Credit Corp FRN 6.59125% Due 10-9-2001	4,660,000
4	5,243,700	U.S. Treasury 0% Coupon Strips Due 11-15-2011	4,278,335
5	3,680,000	Bank One NA Chicago ILL MTN 3.35% Due 3-16-2004	3,684,600
6	3,685,000	U.S. Treasury Tiger 0% Coupon Due 8-15-2004	3,331,830
7	2,825,801	First Chicago Corp FRN 6.8375% Due 7-28-2003	2,835,691
8	2,818,119	Chemical Bank FRN 6.775% Due 7-29-2003	2,825,164
9	2,530,000	MTN Nations Bank FRN 6.76% Due 1-05-2004	2,528,735
10	2,300,000	Federal Home Loan 6.5% Due 5-23-2011	2,405,662

* A complete list of stock and bond holdings is available from the Michigan Department of Treasury.

INVESTMENT SECTION

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff in the real estate and alternative investment markets. Only 15.5% of the total investment portfolio is managed by fully discretionary outside advisors. Outside advisors' fees are netted against the partnership or trust fund income. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to \$227.4 thousand or less than three basis points (.03%) of the market value of the portfolio.

State law created an Investment Advisory Committee comprised of the directors of the Department of Consumer and Industry Services and Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but are paid actual and necessary travel and other expenses. The committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The committee may also, by a majority vote, direct the State Treasurer to dispose of any holding which in the committee's judgement is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points*
State Treasurer	\$ 875,145.4	\$ 227.4	2.6
Outside Advisors - Alternative	155,258.6	1,338.5	86.2
Real Estate	4,670.0	-	-
Total	\$ 1,035,074.0		

Other Investment Services Fees:

Assets in Custody	\$ 725,917.2	\$ 40.0
Securities on Loan	45,480.7	1,367.7

* Outside Advisors Fees are netted against the income of the partnership and trust income. The partnership agreements define the management fees, which range from 150 to 250 basis points of the committed capital, in most cases the fees are netted against income. For Real Estate the asset management fee normally ranges from 25 to 90 basis points and is netted against current year's income.

INVESTMENT SECTION

Schedule of Investment Commissions

Fiscal Year Ended September 30, 2001			
	Commissions Paid ⁽¹⁾	Number of Shares Traded	Average Commission Rate Per Share
Investment Brokerage Firms:			
Salomon Smith Barney, Inc.	\$ 16,169	405,031	0.04
Merrill Lynch & Co.	14,437	292,058	0.05
Morgan Stanley Dean Witter & Co.	12,703	254,329	0.05
Lehman Brothers, Inc.	11,242	239,347	0.05
Goldman, Sachs & Co.	7,902	158,182	0.05
Paine Webber, Inc.	7,533	152,949	0.05
Bear Stearns & Co.	7,428	161,015	0.05
Bridge Trading Company	7,200	162,468	0.04
Prudential Securities, Inc.	6,563	131,259	0.05
C.S. First Boston Corporation	6,075	128,912	0.05
Sanford C. Bernstein & Co.	5,328	106,551	0.05
J.P. Morgan Securities, Inc.	3,338	66,763	0.05
S.G. Cowen & Company	3,218	64,356	0.05
OTA Research	2,906	58,120	0.05
Oppenheimer & Company	2,717	54,347	0.05
Cantor Fitzgerald & Co.	2,387	60,016	0.04
Deutsche Bank	2,231	44,620	0.05
BancBoston Robertson Stephens	2,118	42,127	0.05
Banc of America Securities, LLC	1,601	32,014	0.05
ISI Group, Inc.	950	18,989	0.05
First Union Securities	826	16,523	0.05
Barrington Research	822	16,431	0.05
Wit Capital Corp	708	14,170	0.05
Instinet Group Inc.	687	17,738	0.04
Charles Schwab & Co., Inc.	622	12,436	0.05
Subtotal (25 highest)	\$ 127,711	2,710,751	0.05 ⁽²⁾
All Other Brokerage Firms	1,247	24,900	0.05 ⁽³⁾
Total	\$ 128,958	2,735,651	0.05 ⁽⁴⁾

⁽¹⁾ These amounts are included in purchase and sale prices of investments.

⁽²⁾ The average commission rate per share for the top 25 brokerage firms.

⁽³⁾ The average commission rate per share for all other brokerage firms, excluding the top 25 brokerage firms.

⁽⁴⁾ The average commission rate per share for all brokerage firms.

INVESTMENT SECTION

Investment Summary

	Fiscal Year Ended September 30, 2001				Fiscal Year Ended September 30, 2000			
	Percent of Total		Investment & Interest Income ***		Percent of Total		Investment & Interest Income ***	
	Market Value *	Market Value *	Market Value *	Market Value *	Market Value *	Market Value *	Market Value *	Market Value *
Fixed Income:								
Government Bonds	\$ 107,308,125	10.4%	\$ 17,211,848	-12.6%	\$ 142,433,090	11.9%	\$ 9,987,016	6.8%
Corporate Bonds & Preferred Stocks	105,727,332	10.2%	10,638,077	-7.9%	97,671,093	8.1%	5,607,633	3.8%
Mortgages	360,416	0.0%	33,117	0.0%	358,384	0.0%	31,037	0.0%
Total Fixed Income	213,395,873	20.6%	27,883,042	-20.5%	240,462,567	20.0%	15,625,686	10.6%
Common Stock	427,070,730	41.3%	(123,780,776)	90.8%	544,219,228	45.4%	59,301,723	40.6%
Real Estate	98,236,348	9.5%	8,853,016	-6.5%	99,979,814	8.3%	9,675,131	6.6%
Alternative Investments	160,314,731	15.5%	(27,464,761)	20.2%	190,026,521	15.9%	52,986,422	36.3%
International Equities	69,019,156	6.7%	(24,099,675)	17.7%	77,010,108	6.4%	6,131,487	4.2%
Short Term Investments **	67,037,120	6.4%	2,341,793	-1.7%	48,561,747	4.0%	2,448,405	1.7%
Total	\$ 1,035,073,958	100.0%	\$ (136,267,361)	100.0%	\$ 1,200,259,985	100.0%	\$ 146,168,854	100.0%

* Short Term Investments are at cost, which approximates market value.

** Excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September 30 for each fiscal year. Amount also excludes \$44,764,027 and \$15,971,609 in cash collateral for security lending for fiscal year 2001 and 2000, respectively.

ACTUARIAL SECTION

Actuary's Certification
Summary of Actuarial Assumptions and Methods
Schedule of Active Member Valuation Data
Retirant and Beneficiary Data
Prioritized Solvency Test
Summary of Plan Provisions

ACTUARIAL SECTION

Actuary's Certification



THE SEGAL COMPANY

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January 18, 2001

Mr. Duane E. Berger
Director
Department of Management and Budget
and
Retirement Board
Michigan State Police Retirement System
P.O. Box 30176
Lansing, Michigan 48909

Ladies and Gentlemen:

The Michigan State Police Retirement System (MSPRS) is funded on an actuarial reserve basis. The basic financial objective of MSPRS is to establish and receive contributions that remain approximately level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually to determine MSPRS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2000 included a total of 4,570 members of MSPRS. The actuarial value of MSPRS's assets amounted to approximately \$1,113.1 million on September 30, 2000.

The actuarial assumptions used in the 2000 valuation are the same as those used in the previous annual actuarial valuation. These assumptions produce valuation results which we consider to be reasonably indicative of the plan's underlying cost. Also, in our opinion, the actuarial assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section by GASB Statement No. 25.

Our actuarial valuation of MSPRS as of September 30, 2000 was performed by qualified actuaries in accordance with accepted actuarial procedures. In our opinion, the calculated contribution rate meets the fundamental objectives of State law. Based on the 2000 valuation results, it is also our opinion that the Michigan State Police Retirement Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

Most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedules of Funding Progress and the employer contributions shown in the Schedules of Employer Contributions in the Financial Section of this report were provided by our firm.

Sincerely,

Michael Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary

Benefits, Compensation and HR Consulting ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES MINNEAPOLIS
NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, DC

Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG LONDON MELBOURNE MEXICO CITY OSLO PARIS

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8% per year, compounded annually. This rate of return is not the assumed real rate of return. Considering other financial assumptions, this 8% investment return rate translates to an assumed real rate of return of 4%. Adopted 1994.
2. The mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table, set forward one year for both men and women. Adopted 1998.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 1998.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page. Adopted 1998.
5. Total active member payroll is assumed to increase 4% per year. This represents the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members. Adopted 1998.
6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a declining period of 50 years, beginning October 1, 1986. Adopted 1986.
7. During 1998, the Department of Management and Budget approved the use of market value of assets as of September 30, 1997 for actuarial valuation purposes. For investment gains or losses that occur after that date, a 5-year smoothing technique will be used. Specifically, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over 5 years.
8. The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's Board after consulting with the actuary.

ACTUARIAL SECTION

Summary of Actuarial Assumptions and Methods (Continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

<u>Retirement Ages</u>	<u>Percent of Eligible Active Members Retiring Within Next Year</u>
44-49 (first year eligible to retire)	50 %
44-49 (after first year eligible to retire)	25
50-57	25
58	35
59	50
60	65
61	80
62-63	100

SCHEDULE 2

Separation From Active Employment Before

Age & Service Retirement & Individual Pay Increase Assumptions

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Percent of Active Members Withdrawing Within Next Year (Men and Women)</u>	<u>Percent of Active Members Becoming Disabled Within Next Year</u>	<u>Percent Increase In Pay During Next Year*</u>
All	0	6.50 %		
	1	4.00		
20	2 & Over	2.00	0.30 %	11.30 %
25	"	2.00	0.31	10.70
30	"	1.50	0.31	7.85
35	"	0.60	0.32	6.10
40	"	0.35	0.36	5.24
45	"	0.35	0.43	4.89
50	"	0.35	0.53	4.86
55	"		0.63	4.68
60	"		0.75	4.68

*These rates apply after 3 years of service. During the first 3 years, the assumed increases are 84%, 19% and 14%, respectively.

Actuarial Valuation Data

Schedule of Active Member Valuation Data

<u>Valuation Date Sept. 30</u>	<u>Number</u>	<u>Reported Annual Payroll</u>	<u>Average Annual Pay</u>	<u>% Increase</u>	<u>Average Age</u>	<u>Average Service</u>
1991	2,139	\$ 91,626,979	\$ 42,836	8.7 %	39.2	15.4
1992	1,985	89,899,102	45,289	5.7	39.4	15.3
1993	1,885	86,791,793	46,043	1.7	39.9	15.1
1994	1,992	88,623,068	44,490	(3.4)	38.8	13.7
1995	2,181	104,500,048	47,914	7.7	37.9	13.0
1996	2,135	106,826,272	50,036	4.4	38.2	13.1
1997	2,090	110,085,960	52,673	5.3	38.2	12.9
1998	2,220	108,183,040	48,731	(7.5)	37.5	11.6
1999	2,216	116,910,216	52,757	8.3	37.0	11.5
2000	2,210	116,558,417	52,471	(0.0)	37.2	11.6

Retirant and Beneficiary Data Rolls End of Year

<u>Year Ended Sept. 30</u>	<u>Number</u>			<u>Average Monthly Benefit</u>			<u>Average Age</u>		
	<u>Pensioners</u>	<u>Widows</u>	<u>Children</u>	<u>Pensioners</u>	<u>Widows</u>	<u>Children</u>	<u>Pensioners</u>	<u>Widows</u>	<u>Children</u>
1991	1,142	263	3	\$ 1,510	\$ 854	\$ 100	60.8	66.6	13.4
1992	1,267	281	3	1,620	868	100	60.4	66.6	14.4
1993	1,357	282	3	1,697	879	100	60.4	66.7	15.3
1994	1,483	273	3	1,721	938	100	60.5	69.5	16.4
1995	1,548	279	4	1,770	962	100	60.8	69.6	14.8
1996	1,612	397	6	1,845	1,001	100	61.6	69.3	10.3
1997	1,703	310	5	1,963	1,192	419	62.5	70.4	10.7
1998	1,820	314	5	2,062	1,225	499	62.8	71.0	10.1
1999	1,893	334	4	2,141	1,263	499	63.1	71.5	10.8
2000	1,968	345	6	2,227	1,308	366	61.9	71.9	10.4

ACTUARIAL SECTION

Prioritized Solvency Test

The System's funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due, the ultimate test of financial soundness. Testing for level contribution rates is the long-term solvency test.

A prioritized solvency test is another means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the liabilities for service already rendered by active and inactive members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) is normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a byproduct of level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the System and is indicative of the System's policy of following the discipline of level percent of payroll financing.

Actuarial Present Value of Actuarial Accrued Liability (\$ in Thousands)					Portion of Present Value Covered by Assets			
Valuation Date Sept. 30	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	(4)**
1991	\$ 2,747	\$ 251,716	\$ 340,717	\$ 468,304	100 %	100%	62.8 %	78.7 %
1992	\$ 2,127	301,927	340,316	488,711	100	100	54.3	75.8
1993	2,133	330,629	347,749	526,193	100	100	55.6	77.3
1993***	2,133	330,629	347,749	530,936	100	100	57.0	78.0
1994	1,770	370,681	336,847	566,541	100	100	57.6	79.9
1994*	1,770	394,292	315,779	566,541	100	100	54.0	79.6
1995	1,497	422,960	374,363	622,626	100	100	52.9	77.9
1996	1,183	459,985	362,293	697,923	100	100	65.3	84.8
1997	847	516,379	363,100	787,240	100	100	74.4	89.4
1997***	847	516,379	363,100	928,714	100	100	113.3	105.5
1997+	847	516,379	359,533	928,714	100	100	104.0	105.9
1998	614	593,169	349,941	974,365	100	100	108.8	103.2
1998*	614	604,724	357,130	974,365	100	100	103.3	101.2
1999	273	643,284	362,971	1,036,840	100	100	108.4	103.0
2000	198	685,272	355,244	1,113,065	100	100	120.4	107.0

*

Revised actuarial assumptions.

Revised asset valuation method.

**

Percent funded on a total valuation asset and total actuarial accrued liability basis.

+

Revised inflation assumption.

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2000, is based on the present provisions of Public Act 182 of 1986, as amended.

Regular Retirement

Eligibility — 25 years of credited service with no age requirement; or age 50 with 10 years credited service.

Annual Amount — If member has 25 or more years of credited service, 60% of final average compensation; if member has less than 25 years of credited service, total credited service times 2% of final average compensation.

Type of Final Annual Compensation — Average of 2 final years.

Early Retirement

None.

Deferred Retirement (vested benefit)

Eligibility — 10 years of credited service. Benefit commences at age 50.

Annual Amount — Computed as Regular Retirement benefit based on credited service and final average compensation at termination.

Duty-Disability Retirement

Eligibility — No age or service requirement.

Annual Amount — 60% of final average compensation. Disability benefit plus workers' compensation benefit, if any, shall not exceed 100% of final average compensation.

Non-Duty Disability Retirement

Eligibility — 10 years of credited service.

Annual Amount — 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation.

Duty Death Before Retirement

Eligibility — No age or service requirement.

Annual Amount — 60% of final average compensation is payable to surviving spouse; additional \$1,200 per year for each child under 18 is also payable. If no surviving spouse, children under 18 share in 60% benefit until attainment of age 18. If no spouse or children, dependent parents are eligible for 60% benefit (plus \$1,200 per dependent sibling under 18). Retirement benefit plus workers' compensation, if any, shall not exceed 100% of final average compensation.

Lump Sum Payment — A \$1,500 funeral benefit is also payable.

ACTUARIAL SECTION

Summary of Plan Provisions (Continued)

Non-Duty Death Before Retirement

Eligibility — 10 years of credited service.

Annual Amount — 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation, payable to surviving spouse. If no surviving spouse, children under 18 share in benefit until attainment of age 18.

Death After Retirement

The retired member's benefit continues to the surviving spouse. If no surviving spouse, children under 18 share in the continued benefit until attainment of age 18.

Post-Retirement Cost-of-Living Adjustments

All members retiring (or leaving employment with vested benefits), and their survivors, are eligible for automatic 2% annual (non-compounded) benefit increases, with a maximum annual increase of \$500.

Post-Retirement Health Insurance Coverage

Persons in receipt of retirement allowances, and their dependents, are eligible for 95% State-paid health insurance coverage and 90% State-paid dental and vision insurance.

Member Contributions

None.

STATISTICAL SECTION

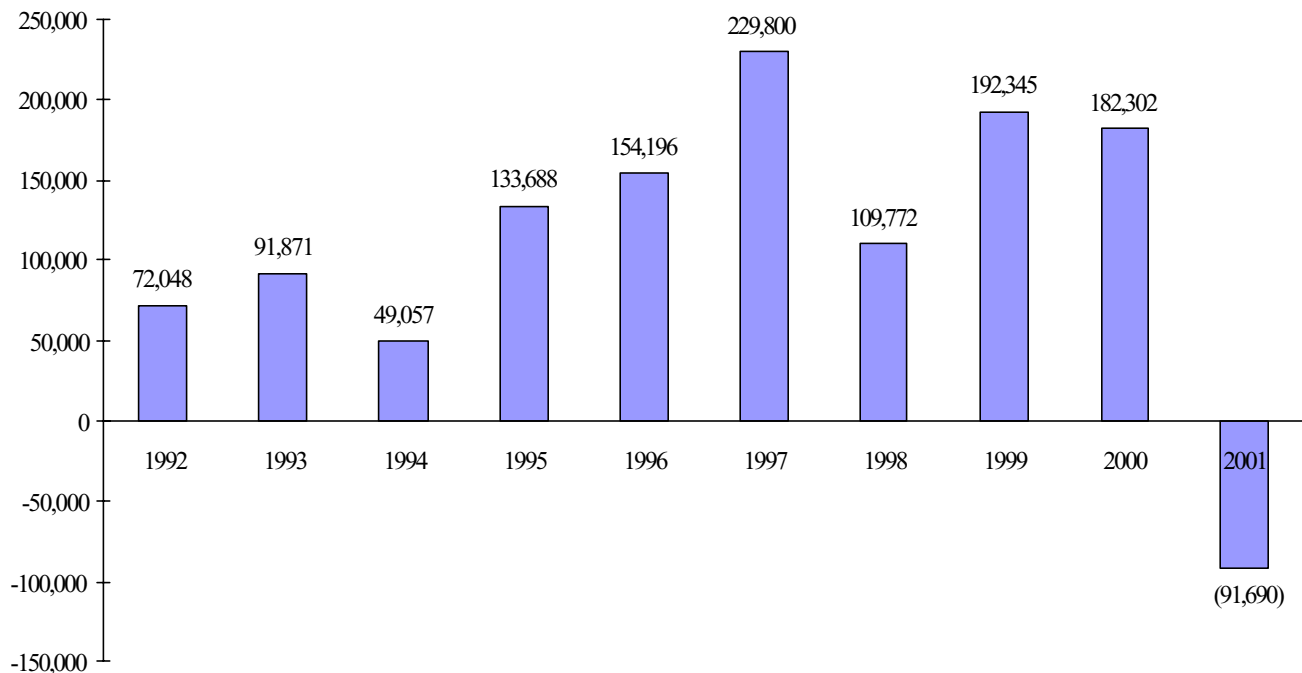
Schedule of Revenues by Source
Schedule of Expenses by Type
Schedule of Benefit Expenses by Type
Schedule of Retired Members by Type of Benefit
Schedule of Average Benefit Payments
Ten Year History of Membership

STATISTICAL SECTION

Schedule of Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
1992	\$ 72,117	\$ 29,203,071	32.5%	\$ 42,772,851	\$ 72,048,039
1993	30,065	31,183,021	35.9	60,657,772	91,870,858
1994	45,384	35,945,995	40.6	13,065,959	49,057,338
1995	71,008	37,754,338	36.1	95,862,258	133,687,604
1996	76,743	53,135,642	49.7	100,983,575	154,195,960
1997	712,799	51,851,631	47.1	177,235,892	229,800,322
1998	922,736	33,123,384	30.6	75,726,277	109,772,397
1999	1,000,518	34,447,886	29.5	156,926,728	192,345,132
2000	1,115,233	36,528,809	31.3	144,657,843	182,301,885
2001	1,462,642	44,646,018	37.6	(137,798,523)	(91,689,863)

Total Revenues
Year Ended September 30
(In Thousands)



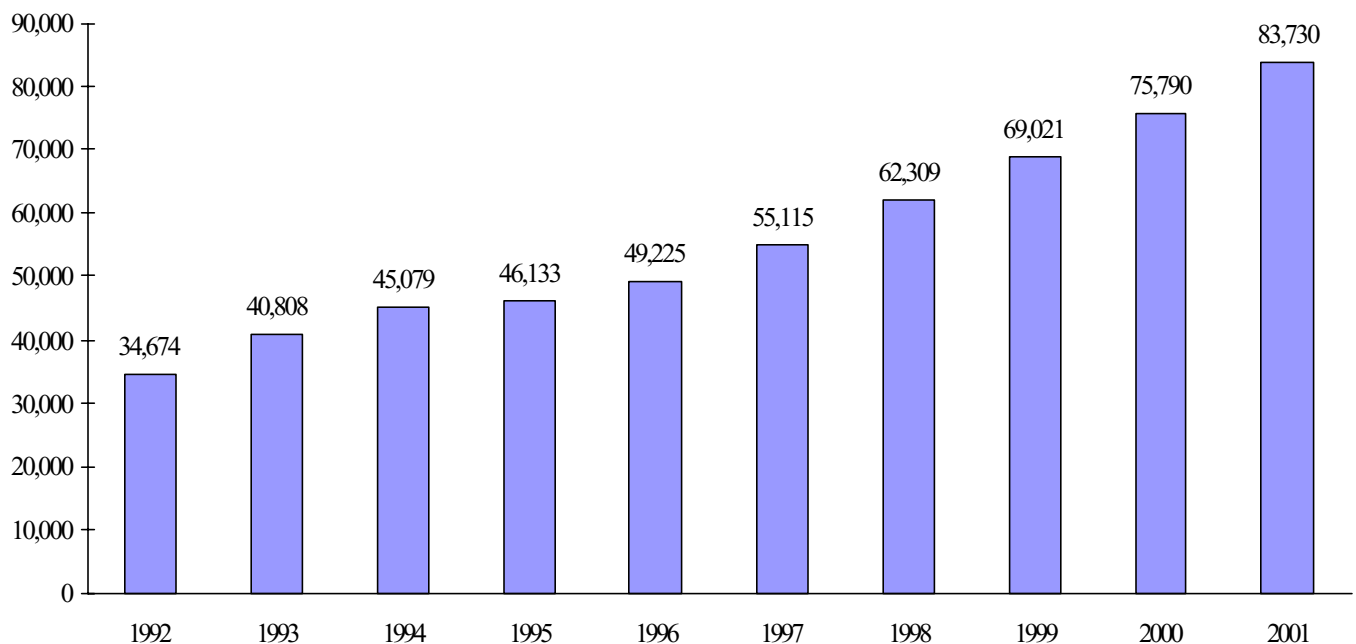
STATISTICAL SECTION

Schedule of Expenses by Type

<u>Fiscal Year Ended Sept. 30</u>	<u>Benefit Payments*</u>	<u>Refunds and Transfers</u>	<u>Administrative and Other Expenses</u>	<u>Total</u>
1992	\$ 34,207,792	\$ 586	\$ 465,435	\$ 34,673,813
1993	40,446,933	1,743	359,160	40,807,836
1994	44,629,521		449,033	45,078,554
1995	45,639,290		493,400	46,132,690
1996	48,795,509		429,986	49,225,495
1997	54,912,395		202,828	55,115,223
1998	62,083,435		225,327	62,308,762
1999	68,693,133	4,694	322,997	69,020,824
2000	75,631,405		158,935	75,790,340
2001	83,431,499	6	298,711	83,730,216

*Includes health, dental and vision benefits.

Total Expenses Year Ended September 30 (In Thousands)

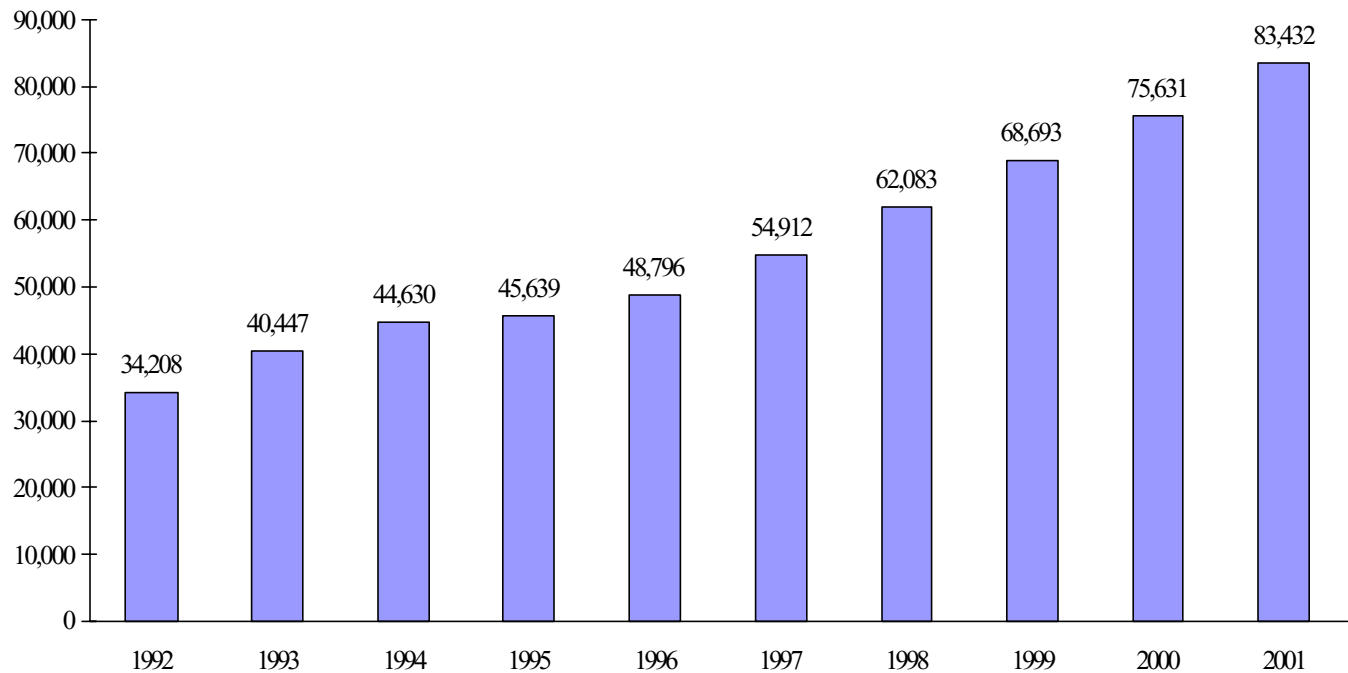


STATISTICAL SECTION

Schedule of Benefit Expenses by Type

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Funeral Benefits	Health Benefits	Total
1992	\$ 23,797,297	\$ 1,760,059	\$ 3,000	\$ 8,647,436	\$ 34,207,792
1993	27,681,161	1,957,605	1,500	10,806,667	40,446,933
1994	30,915,357	2,127,957	3,000	11,583,207	44,629,521
1995	33,141,186	2,366,398		10,131,706	45,639,290
1996	35,794,961	2,482,429	1,500	10,516,619	48,795,509
1997	40,536,134	2,782,100		11,594,161	54,912,395
1998	45,216,692	3,010,640		13,856,103	62,083,435
1999	49,330,784	3,155,805		16,206,544	68,693,133
2000	53,466,267	3,223,915	3,000	18,938,222	75,631,405
2001	57,019,158	3,388,237		23,024,104	83,431,499

Benefit Expenses For Year Ended September 30 (In Thousands)



STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit September 30, 2000

Amount Monthly Benefit	Number of Retirees	Type of Retirement *						Option **
		1	2	3	4	5	6	Life
\$ 001 - 400	42	33	1	2	1	3	2	42
401 - 800	123	89	6	3	10	0	15	123
801 - 1,200	425	212	152	30	5	17	9	425
1,201 - 1,600	307	209	47	27	11	6	7	307
1,601 - 2,000	161	125	10	12	4	3	7	161
2,001 - 2,400	211	158	23	19	7	1	3	211
2,401 - 2,800	400	374	9	8	3	2	4	400
2,801 - 3,200	402	392	4	4	2	0	0	402
3,201 - 3,600	169	167	0	0	0	0	2	169
3,601 - 4,000	48	47	0	1	0	0	0	48
Over 4,000	31	31	0	0	0	0	0	31
Totals	2,319	1,837	252	106	43	32	49	2,319

* Type of Retirement

- 1 - Normal retirement for age & service
- 2 - Survivor payment - normal retirement
- 3 - Duty disability retirement
- 4 - Non-duty disability retirement
- 5 - Survivor payment - duty death in service
- 6 - Survivor payment - non-duty death in service

**Selected Option

Life - 100% Joint and Survivors

STATISTICAL SECTION

Schedule of Average Benefit Payments

Retirement Effective Dates		Years Credited Service														
		0-5	5-10	10-15	15-20	20-25	25-30	30+	Total							
Period 10/1/94 to 9/30/95:																
Average Monthly Benefit	\$	742	\$	1,038	\$	763	\$	938	\$	1,253	\$	1,730	\$	2,137	\$	1,644
Average Final Average Salary		4,160		15,508		19,504		20,169		24,718		31,818		40,964		30,364
Number of Active Retirants		74		18		59		63		96		1,322		199		1,831
Period 10/1/95 to 9/30/96:																
Average Monthly Benefit	\$	757	\$	952	\$	775	\$	959	\$	1,255	\$	1,814	\$	2,180	\$	1,709
Average Final Average Salary		3,752		18,858		20,419		20,860		25,543		33,351		41,832		31,620
Number of Active Retirants		82		20		61		64		98		1,383		207		1,915
Period 10/1/96 to 9/30/97:																
Average Monthly Benefit	\$	750	\$	1,112	\$	789	\$	1,016	\$	1,324	\$	1,971	\$	2,295	\$	1,840
Average Final Average Salary		2,411		18,858		21,369		21,482		25,967		34,903		42,786		32,846
Number of Active Retirants		86		20		70		67		98		1,463		214		2,018
Period 10/1/97 to 9/30/98:																
Average Monthly Benefit	\$	731	\$	1,188	\$	819	\$	1,114	\$	1,351	\$	2,084	\$	2,392	\$	1,936
Average Final Average Salary		2,116		21,238		23,006		22,791		26,112		36,912		44,432		34,509
Number of Active Retirants		98		22		75		70		98		1,548		227		2,138
Period 10/1/98 to 9/30/99:																
Average Monthly Benefit	\$	746	\$	1,196	\$	856	\$	1,120	\$	1,401	\$	2,173	\$	2,489	\$	2,006
Average Final Average Salary		1,852		22,257		24,530		22,790		27,318		38,441		45,879		35,702
Number of Active Retirants		112		23		85		70		102		1,601		238		2,231
Period 10/1/99 to 9/30/00:																
Average Monthly Benefit	\$	938	\$	1,408	\$	854	\$	1,124	\$	1,421	\$	2,267	\$	2,569	\$	2,086
Average Final Average Salary		8,313		25,199		24,827		23,537		27,727		39,975		47,088		37,065
Number of Active Retirants		141		25		86		67		103		1,651		246		2,319

10 Year History of Membership
Fiscal Year Ended September 30

